

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Huron Utilities Authority</b>	County <b>Washtenaw</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>1/31/06</b>	Date Accountant Report Submitted to State: <b>2/24/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

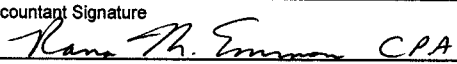
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Post, Smythe, Lutz and Ziel LLP</b>			
Street Address <b>1034 W. Ann Arbor Trail</b>		City <b>Plymouth</b>	State <b>MI</b>
			ZIP <b>48170</b>
Accountant Signature  <b>Kara M. Emerson CPA</b>			Date <b>2/24/06</b>

HURON UTILITIES AUTHORITY  
Washtenaw County, Michigan

AUDITED FINANCIAL REPORT

For the Fiscal Year Ended December 31, 2005

HURON UTILITIES AUTHORITY  
For the Year Ended December 31, 2005

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# POST, SMYTHE, LUTZ AND ZIEL LLP

*Certified Public Accountants*

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### Independent Auditor's Report

January 31, 2006

To the Board of Trustees  
Huron Utilities Authority  
Washtenaw County, Michigan

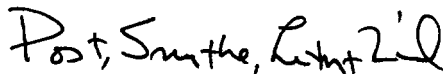
We have audited the accompanying basic financial statements of the Huron Utilities Authority, Michigan, as of and for the year ended December 31, 2005 as listed in the table of contents. These financial statements are the responsibility of Huron Utilities Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Huron Utilities Authority as of December 31, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Respectfully,



POST, SMYTHE, LUTZ and ZIEL LLP  
Certified Public Accountants

## Management's Discussion and Analysis

As management of the Huron Utilities Authority, we offer readers of Huron Utilities Authority's financial statements this narrative overview and analysis of the financial activities of Huron Utilities Authority for the fiscal year ended December 31, 2005.

### Financial Highlights

- The assets of the Huron Utilities Authority exceeded its liabilities at the close of the most recent fiscal year by \$777 (*net assets*), all of which is unrestricted net assets and may be used to meet the government's ongoing obligations to citizens and creditors.
- Revenues decreased by \$236 and were \$1,264 and \$1,500 for fiscal years 2005 and 2004, respectively.
- Expenditures increased by \$707 and were \$3,051 and \$2,344 for fiscal years 2005 and 2004, respectively.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Huron Utilities Authority's basic financial statements. Huron Utilities Authority's basic financial statements are comprised of 1) Statement of Net Assets, 2) Statement of Activities, 3) Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual, and 4) notes to the financial statements.

The *statement of net assets* presents information on all of Huron Utilities Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Huron Utilities Authority is improving or deteriorating.

### Financial Analysis

The following table shows in a comparative format, the net assets as of the current year and the prior year:

	<u>2005</u>	<u>2004</u>	<u>Change</u>
<b>Assets</b>			
Current and other assets	\$ 777	\$ 4,639	\$ (3,862)
<b>Liabilities</b>			
Current	<u>-</u>	<u>2,075</u>	<u>(2,075)</u>
<b>Net Assets</b>			
Unrestricted	<u>\$ 777</u>	<u>\$ 2,564</u>	<u>\$ (1,787)</u>

The major factors affecting the Statement of Net Assets, is that liabilities decreased by \$2,075, which is due to a combined effect of \$1,000 owed from the Water Supply #4 Construction Agency Fund that was paid and a \$900 decrease in the amount of deferred revenue from member contributions.

The following table represents the changes in net assets during the current year:

	<u>2005</u>	<u>2004</u>	<u>Change</u>
<b>Revenues</b>	\$ 1,264	\$ 1,500	\$ (236)
<b>Expenses</b>	<u>3,051</u>	<u>2,344</u>	<u>707</u>
<b>Change in Net Assets</b>	<u>\$ (1,787)</u>	<u>\$ (844)</u>	<u>\$ (943)</u>

Total revenues decreased as not all member contributions were received for 2005.

### **Budgetary Highlights**

There was no difference between the original budget and the final budget during the year, as there were no amendments made. Actual expenditures were greater than budgeted expenditures during the year by a total of \$601.

### **Economic Factors and Next Year's Budgets and Rates**

For 2005 and 2006, the Board approved a decrease in the annual member contribution amounts from \$300 per year previously to \$150 per year for years 2005 and 2006.

### **Requests for Information**

This financial report is designed to provide a general overview of Huron Utilities Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Huron Utilities Authority, 6201 W. Michigan Avenue, Ann Arbor, Michigan, 48108.

**HURON UTILITIES AUTHORITY**  
**(An Authority Created Under Act 233, As Amended)**  
**Statement of Net Assets and Governmental Fund Balance Sheet**  
**December 31, 2005**

	<u>General Operating Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 442	\$ -	\$ 442
Due from Other Governmental Units	<u>335</u>	<u>-</u>	<u>335</u>
Total Current Assets	<u>777</u>	<u>-</u>	<u>777</u>
 <b>LIABILITIES</b>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 <b>NET ASSETS</b>			
Unreserved fund balance/Unrestricted	\$ <u>777</u>	\$ <u>-</u>	\$ <u>777</u>

**HURON UTILITIES AUTHORITY**  
**(An Authority Created Under Act 233, As Amended)**  
**Statement of Activities**  
**For the Year Ended December 31, 2005**

**Expenses:**

Trustees	\$ 200
Administrative	300
Insurance	417
Legal & Accounting	1,975
Miscellaneous	<u>159</u>
Total Expenses	3,051

**Program Revenues:**

Operating Contributions	<u>1,200</u>
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Net Program Revenues	(1,851)
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**General Revenues:**

Interest Income	<u>64</u>
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Change in Net Assets	(1,787)
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Net Assets - January 1	<u>2,564</u>
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Net Assets - December 31	\$ <u><u>777</u></u>
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**HURON UTILITIES AUTHORITY**  
**(An Authority Created Under Act 233, As Amended)**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended December 31, 2005**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance- Favorable Unfavorable</u>
<b>Revenues:</b>				
Intergovernmental	\$ 900	\$ 900	\$ 1,200	\$ 300
Interest	50	50	64	14
Total Revenues	<u>950</u>	<u>950</u>	<u>1,264</u>	<u>314</u>
<b>Expenditures:</b>				
Trustees	320	320	200	120
Administrative	300	300	300	-
Insurance	100	100	417	(317)
Legal & Accounting	1,600	1,600	1,975	(375)
Miscellaneous	130	130	159	(29)
Total Expenditures	<u>2,450</u>	<u>2,450</u>	<u>3,051</u>	<u>(601)</u>
Excess (Deficiency) of Revenues over Expenditures	\$ <u>(1,500)</u>	\$ <u>(1,500)</u>	(1,787)	\$ <u>(287)</u>
Fund Balance - January 1			<u>2,564</u>	
Fund Balance - December 31			\$ <u>777</u>	

**HURON UTILITIES AUTHORITY**  
**(An Authority Created Under Act 233, As Amended)**  
**Statement of Fiduciary Net Assets**  
**December 31, 2005**

		Water System #4 Debt <u>Agency Fund</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$	335
<b>LIABILITIES</b>		
Due to Other Governmental Units		<u>335</u>
<b>NET ASSETS</b>		
Unrestricted	\$	<u><u>-</u></u>

HURON UTILITIES AUTHORITY  
(An Authority Created Under Act 233, As Amended)  
Notes to Financial Statements  
December 31, 2005

(1) Summary of Significant Accounting Policies

A. Scope of Reporting Entity

The Huron Utilities Authority was created in 1966 pursuant to the provisions of Act 233, as amended, of the Public Acts of Michigan. The Authority consists of representatives of the Townships of Ypsilanti, Pittsfield, Northfield, Augusta, Superior and Scio. The Authority has no stockholders, and all money received is to be used for specified purposes in accordance with agreements between the Authority and those Townships which contract with the Authority for construction financing. Each Township which contracts with the Authority for construction financing pledges its full-faith and credit for periodic payments to the Authority which are sufficient to retire the debt incurred. When the bonds outstanding on a construction project have been retired, the constructed assets become the property of the Township which financed the project.

The Authority is currently a party to contracts with Pittsfield Township. Construction has been for water lines.

The Authority is governed by a seven member Board of Trustees who are appointed by the member townships. There are no component units to be included in these financial statements as defined by accounting principles generally accepted in the United States of America.

B. Basis of Accounting

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

HURON UTILITIES AUTHORITY  
(An Authority Created Under Act 233, As Amended)  
Notes to Financial Statements  
December 31, 2005

(1) Summary of Significant Accounting Policies – Continued

B. Basis of Accounting - Continued

GOVERNMENTAL FUNDS

General Operating Fund -- The general operating fund of the Authority is used to account for all financial resources except those required to be accounted for in another fund.

FIDUCIARY FUNDS

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. The Authority utilizes agency funds which are used to account for assets that the government holds for others in an agency capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Deposits

Under State law, the Authority is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury and commercial paper with certain investment grades.

Custodial Credit Risk is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. Neither State law nor the Authority's investment policy requires consideration of custodial credit risk. As of December 31, 2005, the Authority's book balance of its deposits was \$777. The bank balance was \$2,952 which was exposed to custodial credit risk, as follows:

	Bank
	<u>Balance</u>
Amounts insured by FDIC	\$ 2,952
Uncollateralized	<u>-</u>
Total Bank Balance	<u>\$ 2,952</u>

A reconciliation of cash to the accompanying financial statements follows:

Cash and Cash Equivalents per:

Statement of Net Assets	\$ 442
Statement of Fiduciary Net Assets	<u>335</u>
Total	<u>\$ 777</u>

HURON UTILITIES AUTHORITY  
(An Authority Created Under Act 233, As Amended)  
Notes to Financial Statements  
December 31, 2005

(1) Summary of Significant Accounting Policies – Continued

D. Deposits – Continued

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy does not further limit its investment choices.

Interest Rate Risk. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority's deposits and investments consisted of demand deposit accounts totaling \$2,952.

Concentration of Credit Risk. The Authority's investment policy places no limit on the amount the Authority may invest in any one issuer. The Authority does not have more than 5% of its total investments in any single issuer.

E. Risk Management

The Authority is exposed to various risks of loss related to liability and other circumstances. The Authority has purchased property and liability coverages through commercial insurance carriers. There were no significant reductions in property and liability insurance coverage from the prior year and no insurance settlements have exceeded coverage.

(2) Stewardship, Compliance and Accountability

A. Formal Adopted Budget

The Authority did adopt annual budgets as required by Public Act 2 of 1968 (as amended).

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balances

The Authority has no accumulated fund balance deficits.

HURON UTILITIES AUTHORITY  
(An Authority Created Under Act 233, As Amended)  
Notes to Financial Statements  
December 31, 2005

(2) Stewardship, Compliance and Accountability – Continued

B. Compliance with P.A. 621 of 1978 – Continued

2. Excess of Expenditures Over Appropriations in Budgetary Funds

Public Act 621 of 1978 Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated in the annual budget. In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures have been shown on a line item basis. The approved budget of the Authority for the General Operating Fund, which is a budgetary fund, was adopted at the total fund level.

During the year ended December 31, 2005, the Authority exceeded the amounts appropriated by a total of \$601.

(3) Conduit Debt

The Authority entered into contracts with the member municipalities to issue bonds pursuant to Public Acts of Michigan Act 233 of 1955, Section 9 as amended. Under the provisions of these contracts, the municipality is obligated to pay all of the cost of improvements to be financed by the issuance of bonds of the Authority by paying the debt installments plus interest, and the municipality has further obligated itself to levy taxes annually to the extent necessary for the purpose of meeting the debt payments. The constructed assets or improvements are property of the municipality and not the Authority.

Huron Utilities Authority is in no manner responsible for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2005, the outstanding conduit debt obligations payable are as follows:

	<u>Bonds Outstanding</u> <u>At Dec. 31, 2005</u>
Pittsfield Township Water Supply System No. 4	\$ 540,000
Bonds Issued September 1, 2001	
Total Amount of Issue \$750,000	
Bonds Payable through November 2013	

During fiscal year 2005, the Pittsfield Township Water Supply System No. 3 bonds with principal outstanding of \$675,000 were paid off in full. The bonds were originally issued in 1994 and were to mature in 2012.

HURON UTILITIES AUTHORITY  
(An Authority Created Under Act 233, As Amended)  
Notes to Financial Statements  
December 31, 2005

(4) Fund Balance Designations

Fund Balance:

Unreserved:

Designated for Subsequent Year's

Expenditures \$ 45

Undesignated 732

Total Fund Balance \$ 777

(5) Other Information

As of November 22, 2005, the Charter Township of Superior Board adopted a motion to withdraw from the Huron Utilities Authority.